

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 IO-11 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

XMB-02 /105 W

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R 191541Z FEB 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6577

INFO AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY PARIS

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

CINC USAFE LINDSEY

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: PRELIMINARY FOURTH QUARTER 1975 GNP DATA SHOW

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STRONG GROWTH

1. BEGIN SUMMARY: FOURTH QUARTER 1975 REAL GNP GROWTH WAS A STRONG 10 TO 12 PERCENT AT AN ANNUAL RATE. PRIVATE AND PUBLIC CONSUMPTION WERE BELOW AVERAGE PERFORMERS AMONG THE GNP COMPONENTS IN THE SECOND HALF 1975. ALSO ACTING AS A DRAG ON THE GROWTH RATE WAS A VERY STRONG INVENTORY REDUCTION IN THE SECOND HALF WHICH SHOULD, HOWEVER, LEAD TO GROWTH SUPPORT IN 1976 STEMMING FROM THE NECESSARY RESTOCKING. ON THE OTHER HAND THE RELATIVELY GOOD RESURGENCE IN INVESTMENT ACTIVITY COULD WELL LOSE STEAM IN THE SECOND HALF 1976 WITH THE EXPIRY OF THE INVESTMENT BONUS EFFECT. THE "OVERHANG" FACTOR, FOR THE YEAR 1976 IS AROUND 2 PERCENT. END SUMMARY.

2. WE HAVE RECEIVED PRELIMINARY DATA SHOWING THAT THE FOURTH QUARTER 1975 SEASONALLY ADJUSTED CONSTANT PRICE GNP GREW 3.0 PERCENT OVER THE THIRD QUARTER ACCORDING TO THE BUNDESBANK, AND 2.5 PERCENT PER THE BERLIN INSTITUTE (DIW) SERIES (WHICH HAS YET TO BE PUBLISHED). THERE APPEARS TO HAVE BEEN SOME REVISION OF THE EARLIER DATA WHICH RESULTED IN A SHIFTING OF WEIGHTS BETWEEN QUARTERS WITHIN THE YEAR IN THE CASE OF THE BUNDESBANK. THE GNP GROWTH RATES IN SEASONALLY ADJUSTED REAL TERMS FOR THE FOUR QUARTERS OF 1975 AT ANNUAL RATES ACCORDING TO THE TWO SOURCES ARE AS FOLLOWS:

	I	II	III	IV
	----	----	----	----
BUNDESBANK		-10.0	0.0	0.0 #12.0
DIW		-4.8 -10.8	#4.8	#10.0

3. VARIATIONS BETWEEN THE TWO SETS OF DATA RESULT FROM THE FACT THAT DIW CORRECTS FOR VARIATIONS IN THE NUMBER OF WORKING DAYS WHEREAS THE BUNDESBANK DOES NOT, AND ALSO FROM THE USE OF DIFFERING SEASONAL ADJUSTMENT PROGRAMS. IN BOTH CASES, HOWEVER, THE FOURTH QUARTER CLEARLY WAS ONE OF STRONG GROWTH. HOWEVER, THE "OVERHAND" FACTOR, WHICH WE HAVE EXPLAINED IN EARLIER MESSALIMITED OFFICIAL USE

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GES, IS NOT AS GREAT AS EARLIER THOUGHT. MAINTENANCE OF, AND NO FURTHER GROWTH BEYOND, THE FOURTH QUARTER 1975 GNP LEVEL OVER THE COURSE OF 1976 WOULD IMPLY UP TO 1.7 PERCENT REAL GROWTH IN 1976 ACCORDING TO DIW DATA AND 2.0 PERCENT ACCORDING TO THE BUNDESBANK DATA.

4. FOR THOSE WHO PREFER SEMI-ANNUAL GROWTH COMPARISONS,

THE DIW DATA REFLECTS AT ANNUAL RATES A DECLINE OF 6.6 PERCENT IN REAL GNP IN THE FIRST HALF OF 1975 AND A GAIN OF 2.2 PERCENT IN THE SECOND HALF. THE PRELIMINARY BUNDESBANK DATA POINT TO A -6.6 PERCENT FIRST HALF AND A POSITIVE 2.8 PERCENT SECOND HALF.

5. THE DIW DATA IS PARTICULARLY INTERESTING IN THAT

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IT SHOWS A VERY SUBSTANTIAL DRAW DOWN OF STOCKS.
IN SEASONALLY ADJUSTED TERMS AT ANNUAL RATES AND IN
1962 PRICES, THE INVENTORY CHANGES BY QUARTER IN 1975
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WERE IN DM BILLION, 3.1, -3.5, -6.6, AND -4.3. IN
OTHER WORDS, THE RELATIVELY STRONG GNP GROWTH IN THE
SECOND HALF WAS NOT DUE TO THE PERHAPS TEMPORARY
PHENOMENON NOTED IN THE U.S. OF STOCK REBUILDING,
BUT RATHER TO OTHER FACTORS. HAD THERE BEEN NO
DIPPING INTO STOCKS TO MEET DEMAND, GNP GROWTH WOULD
HAVE BEEN TWICE WHAT IT WAS. FURTHER, IT SUGGESTS THAT
THE RESTOCKING EFFORT THAT MUST INEVITABLY FOLLOW WILL
BE A STRONG IMPULSE TO GROWTH IN 1976. A CAUTIONARY
NOTE, HOWEVER, IS THAT INVENTORY CHANGE DATA IS NOT
CONSIDERED ENTIRELY RELIABLE IN THE FRG.

6. THE RECOVERY IN THE SECOND HALF 1975 OWES MUCH TO
THE TURNAROUND IN INVESTMENT ACTIVITY, WHICH IN TURN
WAS UNDOUBTEDLY SPURRED BY THE GOVERNMENT'S INVESTMENT
BONUS SCHEME. THE BOOST THAT THIS STIMULATION PROGRAM
HAS PROVIDED WILL SUBSTANTIALLY COME TO A HALT JUNE 30,
1976 DUE TO ITS DESIGN ; MANY ANALYSTS EXPECT A
RESULTANT DROP IN INVESTMENT GROWTH RATES IN THE SE-
COND HALF 1976.) MACHINERY AND EQUIPMENT INVESTMENT
ROSE AT RATES IN THE THIRD AND FOURTH QUARTERS 2 TO 3
TIMES HIGHER THAN THE OVERALL GNP GROWTH RATE. SIMI-
LARLY, CONSTRUCTION NO LONGER WAS THE DRAG ON THE
ECONOMY THAT IT FOR SO LONG HAD BEEN AND CONTRIBUTED
WITH AN ABOVE AVERAGE GROWTH RATE. PRIVATE CONSUMPTION,
THE ELEMENT WITH THE HEAVIEST WEIGHT IN THE GERMAN GNP,
THOUGH ACCELERATING MODERATELY AS THE YEAR PROCEEDED,
WAS SOMEWHAT BELOW THE OVERALL RATE OF GROWTH BY
YEAR'S END. THIS IS IN CONTRAST TO THE OPPOSITE
SITUATION THAT PREVAILED OVER THE PREVIOUS SIX QUARTERS.
SIMILARLY, GOVERNMENT CONSUMPTION REVERSED ITS SECOND
QUARTER ROLE AND BECAME THE WEAKEST GROWTH COMPONENT
IN THE THIRD AND FOURTH QUARTERS. THE FOURTH QUARTER
PICKUP IN EXPORTS WAS MATCHED BY REINVIGORATION IN THE
IMPORT SECTOR SO THAT THE NET FOREIGN BALANCE REMAINED
ABOUT THE SAME IN BOTH THE FIRST AND SECOND HALVES.

7. ACCORDING TO DATA PROVIDED US BY DIW THE QUARTERLY
GROWTH RATES IN 1975 WERE AS FOLLOWS:

1975 GNP - PERCENTAGE RATES OF CHANGE (1); QUARTER OVER
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PREVIOUS QUARTER; SEASONALLY ADJUSTED; CONSTANT PRICE
(1962) DATA.

	QUARTER			
	I	II	III	IV
	----	----	-----	----
PRIVATE CONSUMPTION	-0.3	0.3	1.3	1.7
PUBLIC COUMPTION	-2.9	2.1	0.1	1.0
FIXED INVESTMENT	-2.6	-3.8	2.6	4.7
MACHINERY AND EQUIPM.	-1.5	-2.7	3.2	5.9
CONSTRUCTION	-3.7	-5.0	2.0	5.4
EXPORTS	-6.7	-1.6	0.9	4.2
IMPORTS	-1.5	1.8	-0.1	5.2
GNP	-1.2	-2.7	1.2	2.5

(1) NON ANNUAL RATES

SOURCE: DIW - BERLIN INSTITUTE FOR ECONOMIC RESEARCH
HILLENBRAND

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